

## Message Text

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ORIGIN ARA-10

INFO OCT-01 AS-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01  
CIAE-00 CIEP-01 COME-00 DODE-00 EB-08 FPC-01 H-01  
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04  
USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07  
OPIC-03 /103 R

DRAFTED BY ARA/ECP/ITE:DTAHER:PAM

APPROVED BY ARA:JGRUNWALD

EB/OIA:RSMITH (DRAFT)

TREASURY:RERB (DRAFT)

L:/SSCHWEBEL (DRAFT)

ARA/AND:CFULLER (DRAFT)

ARA/ECP:SHROGERS

OPIC:JSTEPHENS (INFO)

-----270956Z 061035 /10

R 270108Z JAN 77

FM SECSTATE WASHDC

TO AMEMBASSY QUITO

C O N F I D E N T I A L STATE 018214

E.O. 11652: GDS

TAGS: BDIS, ENRY, EC

SUBJECT: MEETING WITH NORTHWEST PRESIDENT ON ADA  
EXPROPRIATION CASE

REF: A) QUITO 0404; B) STATE 10980

SUMMARY: INTER-AGENCY GROUP LED BY DEPUTY ASSISTANT SECRE-  
TARY GRUNWALD MET WITH NORTHWEST INDUSTRIES REPRESENTATIVES  
TO CONTINUE DIALOGUE BEGUN LAST MONTH TO EXPLORE STEPS TO  
RESOLVE ADA CASE. MEETING RE-INFORCED EARLIER THRUST THAT  
ADA EXPROPRIATION CLAIM REMAINS SERIOUS IMPEDIMENT TO NORTH-  
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WEST IN EXPLOITING GAS CONCESSION. MCMILLIAN AND OTHERS  
APPEARED UNAWARE OF WEEK-END REPORT THAT OKC HAD BOUGHT  
OUT ADA'S REMAINING INTERESTS IN ECUADOR. NORTHWEST REPS  
INDICATED THAT, IF ACCURATE, THIS WAS A WELCOME DEVELOPMENT.  
NORTHWEST REPS REITERATED FIRMLY CONTENTION THAT ECONOMICS  
OF GAS PROJECT DO NOT PERMIT UNILATERAL COMPENSATION BY  
NORTHWEST TO ADA AND/OR SUCCESSORS TO ADA'S CLAIM.

MCMILLIAN INDICATED THAT NORTHWEST WOULD GET IN TOUCH WITH OKC THIS WEEK TO OBTAIN DETAILS OF ADA DEAL AND DETERMINE OKC'S POSITION. MCMILLIAN PLANS TO TRAVEL TO QUITO LATER IN JANUARY TO MEET WITH GOE OFFICIALS. HE WILL CALL ON AMBASSADOR AT THAT TIME. END SUMMARY.

1. NORTHWEST INDUSTRIES PRESIDENT JOHN MCMILLIAN ACCOMPANIED BY HIS ATTORNEY JUAN MARTIN ALLENDE, NORTHWEST V.P. YURI DUNTOV AND TWO OTHER OFFICERS MET ON JAN. 18 WITH DEPARTMENT OFFICERS LED BY DEPUTY ASSISTANT SECRETARY GRUNWALD. TREASURY AND OPIC REPS ALSO ATTENDED MEETING.

2. MR. GRUNWALD BEGAN MEETING BY EXPRESSING USG INTEREST IN SETTLING INVESTMENT DISPUTE ON ONE HAND AND ASSISTING US FIRM IN DEVELOPING ITS CONCESSION ON THE OTHER. HE ASKED MR. MCMILLIAN IF HE WAS AWARE OF A VERY RECENT REPORT THAT OKC HAS PURCHASED ADA'S REMAINING INTERESTS IN ECUADOR. AS WE UNDERSTOOD IT, ADA WOULD NOW DROP OUT OF THE PICTURE WITH OKC INHERITING ITS CLAIMS. THIS DID NOT NECESSARILY MEAN THAT WE NO LONGER WERE FACED WITH AN INVESTMENT DISPUTE THAT COULD HARM OUR RELATIONS WITH ECUADOR AND POSSIBLY IMPEDE NORTHWEST'S ABILITY TO DEVELOP ITS CONCESSION.

3. MR. MCMILLIAN STATED THAT NORTHWEST WAS AWARE OF ADA-OKC NEGOTIATIONS BUT HAD NOT HEARD THAT A BUY-OUT HAD OCCURRED. HE INDICATED THAT HE WOULD ATTEMPT TO GET IN TOUCH WITH CLOYCE BOX, OKC PRESIDENT, TO TRY AND OBTAIN DETAILS OF THE BUY-OUT AND TO CLARIFY OKC'S POSITION.  
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TION ON THE STATUS OF ADA'S CLAIM. HE STATED FURTHER THAT, IF THIS REPORT PROVES TO BE ACCURATE, IT WOULD BE A WELCOME DEVELOPMENT. HE BELIEVED OKC WOULD BE EASIER TO TALK TO THAN ADA AND WOULD BE MORE AMENABLE TO REACHING A SOLUTION. NORTHWEST REPS FELT THAT OKC HAD MAINTAINED A GOOD WORKING RELATIONSHIP WITH THE GOE WHICH COULD PROVE USEFUL.

4. MR. ALLENDE STATED THAT MINISTER VARGAS HAD BEEN AGREEABLE TO INDIRECT COMPENSATION TO ADA. HOWEVER, ALLENDE UNDERSTOOD VARGAS POSITION TO BE THAT HE WOULD APPROVE OF AN INDIRECT SETTLEMENT BUT THAT THE GOE WOULD NOT PROVIDE ANY MONEY. ALLENDE SAID THAT WORLD SUPPLIES OF AMMONIA WERE PLENTIFUL AND NORTHWEST FACED A VERY COMPETITIVE SITUATION IN DEVELOPING ITS PROJECT. NORTHWEST COULD NOT COME UP WITH SUBSTANTIAL ADDITIONAL COSTS, IN THE FORM OF PAYMENTS TO PREVIOUS CONCESSION HOLDERS, THAT WERE NOT FORESEEN WHEN ENTERING INTO THE PROJECT. HE EXPRESSED CONCERN THAT THE GOE AND OKC WOULD EXPECT NORTHWEST TO COME UP WITH THE MONEY.

5. MR. MCMILLIAN SAID CONTRACT DISCUSSIONS TO FORM THE MIXED COMPANY REFERRED TO IN REFTEL WERE GOING SLOWLY. HE INDICATED NORTHWEST WOULD NOT ENTER INTO A CONTRACT NOR INVEST FURTHER UNTIL ALL PROBLEMS WERE RESOLVED. TENTATIVE FINANCING OF APPROXIMATELY DOLS. 230 MILLION HAD BEEN ARRANGED THROUGH EUROPEAN SOURCES. HOWEVER, NORTHWEST WOULD STILL BE INTERESTED IN OPIC FINANCING AND INSURANCE IF AVAILABLE. A DISCUSSION THEN ENSUED OVER THE AMOUNT OF ADA'S OPIC CLAIM (APPROXIMATELY US DOLS 1 MILLION) AND IF OPIC WOULD BE FREE TO CONSIDER NORTHWEST'S APPLICATION, IF THIS RELATIVELY SMALL CLAIM WERE SATISFIED. IT WAS MADE CLEAR TO NORTHWEST THAT SETTTLING THE OPIC CLAIM WOULD NOT IN ITSELF ENABLE OPIC TO CONSIDER AN APPLICATION FOR THE GULF OF GUAYAQUIL CONCESSION. IN LINE WITH OVERALL EXPROPRIATION POLICY, THE USG WOULD FIRST HAVE TO BE SATISFIED THAT THERE NO LONGER WAS A DISPUTE.  
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6. MR. ALLENDE POINTED OUT THAT UNDER ECUADOREAN LAW, TO REOPEN A CONTRACT WITH THE GOE IT WAS NECESSARY TO ESTABLISH THAT SOME ADDITIONAL BENEFIT WAS ACCRUING TO THE GOVERNMENT. THIS WOULD BE DIFFICULT TO ACCOMPLISH IF ALL THAT WAS SOUGHT WAS A MEANS OF CHANNELING GOE FUNDS FROM THE GOE THROUGH NORTHWEST TO ADA OR ITS SUCCESSOR. IT WAS THEN SUGGESTED THAT THE CONTRACT DID CALL FOR COMPENSATION FOR CERTAIN EQUIPMENT AND INVENTORY BELONGING TO PREVIOUS CONCESSIONAIRES. ALLENDE INDICATED THAT UNDER TERMS OF THE CONTRACT, THEY COULD ONLY CONSIDER PRESENT VALUE OF THIS PROPERTY WHICH HAD DETERIORATED CONSIDERABLY OR HAD BECOME VALUELESS. ADA'S SEISMIC RECORDS, HE SAID, WERE NO LONGER OF ANY USE SINCE NORTHWEST HAD DONE THEIR OWN. IT WAS THEN SUGGESTED THAT TALKS WITH OKC OVER EQUIPMENT AND INVENTORY COULD SERVE AS A MEANS OF BEGINNING DISCUSSIONS WHICH MIGHT LEAD TO A RESOLUTION OF THE COMPENSATION CLAIM. THE NORTHWEST REPS APPEARED TO BE WILLING TO CONSIDER THIS TYPE OF APPROACH IN THEIR DISCUSSIONS WITH OKC.

7. DEPARTMENT OFFICERS BROUGHT OUT FACT THAT GOE HAS A NEW ECONOMIC TEAM WHICH MIGHT APPROACH ADA PROBLEM IN A MORE CONSTRUCTIVE MANNER. NORTHWEST REPS APPEARED TO BE AWARE OF FINANCE MININSTER SEVILLA AND USEFUL ROLE HE PLAYED IN BRINGING ABOUT AN ACCEPTABLE SOLUTION TO THE GULF PROBLEM. HOWEVER, ALLENDE DISCOUNTED INFLUENCE SEVILLA AND OTHER NEW GOE ECONOMIC OFFICIALS COULD BRING TO BEAR ON ADA CASE. HE BELIEVED THAT VARGAS WOULD REMAIN THE DECISION MAKER AND WAS THE ONLY OFFICIAL WITH WHOM THEY COULD DEAL.

8. AT MEETING'S END, MR. MCMILLIAN STATED THAT NORTHWEST WOULD QUICKLY SEEK TO DETERMINE THE DETAILS OF THE ADA-OKC BUY OUT AND TO CLARIFY OKC'S POSITION ON THE EXPROPRIATION CLAIM. HE SAID FURTHER THAT HE PLANNED TO VISIT QUITO LATER IN JANUARY AND WOULD PURSUE THIS ISSUE WITH THE GOE.  
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DEPARTMENT REPS INFORMED MCMILLIAN OF AMBASSADOR BLOOMFIELD'S PERSONAL INVOLVEMENT IN INVESTMENT DISPUTES AND THE EMBASSY'S KEEN INTEREST IN ASSISTING US FIRMS TO WORK OUT A SOLUTION. MR. MCMILLIAN EXPRESSED APPRECIATION FOR PREVIOUS SUPPORT PROVIDED BY THE EMBASSY AND STATED HE PLANNED TO CALL ON THE AMBASSADOR WHEN HE ARRIVED IN QUITO.

9. COMMENT: SINCE ADA APPARENTLY HAS SOLD ITS INTERESTS IN ECUADOR, IT APPEARS THAT IT NO LONGER HAS A DISPUTE WITH THE GOE. WE DON'T KNOW WHETHER OKC WILL MAKE A CLAIM AGAINST THE GOE. IF IT DOES WE ASSUME IT WILL INFORM EITHER TREASURY, THE DEPARTMENT OR THE EMBASSY. NEVERTHELESS, WE THINK IT WAS USEFUL TO IMPRESS ON MCMILLIAN THE DIFFICULTY AN UNRESOLVED DISPUTE BETWEEN OKC AND THE GOE COULD CAUSE FOR ITS PLANS. IN VIEW OF EMBASSY'S ENCOURAGING REPORT THAT GOE MAY BE WILLING TO CONSIDER SOME FORM OF DIRECT COMPENSATION, WE DID NOT WISH TO PRESS NORTHWEST ON QUESTION OF INDIRECT COMPENSATION ALTHOUGH THIS REMAINS AN ALTERNATIVE. AT THE SAME TIME, NORTHWEST CLEARLY WISHES IT UNDERSTOOD THAT NO ONE SHOULD LOOK FOR COMPENSATION OUT OF ITS POCKET ALONE. DEPARTMENT, IN FACT, HAS NOT SOUGHT COMPENSATION FROM ONE AMERICAN FIRM TO ANOTHER. WE WISH MERELY TO EXPLORE THE POSSIBILITY OF USING NORTHWEST AS A CONDUIT THROUGH WHICH GOE COMPENSATION COULD BE PASSED. WE BELIEVE IT WOULD BE USEFUL FOR MCMILLIAN TO MEET WITH THE AMBASSADOR REGARDING THE POSSIBILITY OF APPROACHING OTHER GOE OFFICIALS TO EXPLORE STEPS TO RESOLVE THE ISSUE.

10. THE GENERAL FEELING IS THAT THE OKC BUY-OUT OF ADA'S INTERESTS IN ECUADOR IS A SALUTARY DEVELOPMENT, BOTH FROM POINT OF VIEW OF NORTHWEST WHICH MIGHT FIND IT EASIER TO DEAL WITH OKC AND THE GOE WHICH MAY FIND IT POLITICALLY EASIER TO DEAL WITH A FIRM OTHER THAN ADA. ALL IN ALL,  
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THE SIGNS POINT TOWARD SOME MOVEMENT IN ACHIEVING A RESO-

LUTION TO THIS PROBLEM AND WE ARE HOPEFUL THAT THIS MOMENTUM CAN BE ENCOURAGED AND MAINTAINED.

11. THE DEPARTMENT APPRECIATES THE EMBASSY'S QUICK RESPONSE TO REFTEL. HOWEVER, WE ARE INCLINED AT THIS JUNCTURE TO ALLOW NORTHWEST AND OKC AN OPPORTUNITY TO GET TOGETHER BEFORE ACTING ON THE EMBASSY'S RECOMMENDATIONS ON MEETING WITH OKC PRESIDENT BOX.  
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## Message Attributes

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